



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
INSTALLATIONS AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110

September 9, 2003

The Honorable Duncan Hunter
Chairman
House Armed Services Committee
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Under Title 10 United States Code, Section 2688, the Army is required to notify the appropriate committees of the Congress before conveying a utility system to a municipal, private, regional, district, cooperative utility company or other entity.

A summary of the economic analysis supporting privatization of the Fort Eustis, Virginia, electrical distribution utility system is enclosed. Privatization is expected to result in an estimated annual cost avoidance of \$.869 million compared to the cost of continued Government ownership and operation.

This is to inform you that the Army intends to transfer the electrical distribution utility system and award a fifty-year contract for utility services at Fort Eustis, to Dominion Virginia Power 21 days after the receipt of this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "W. A. Armbruster", is positioned above the printed name.

William A. Armbruster
Deputy Assistant Secretary of the Army
Privatization & Partnerships

Enclosure

cc: The Honorable Ike Skelton
Ranking Member



**Department of the Army
Fort Eustis, Virginia
Privatization of the Electrical
Distribution Utility System**

Economic Analysis Summary

August 2003

Executive Summary: The economic analysis conducted for the electrical distribution utility system at Fort Eustis demonstrates that privatization will reduce the Government's cost over the 50-year contract term. The economic analysis for the electrical distribution system resulted in an estimated annual cost avoidance of \$869,000 when compared with respective costs of continued Government ownership and operation.

Overview of the Utility System: Fort Eustis is currently a retail service customer of Dominion Virginia Power (Dominion) under Dominion's standard MS Alternate retail service rates, which apply to large federal installations. The master substation is located near the northern edge of the main cantonment Area. It supplies substations A and B, which are switching substations that supply the entire Installation. The master substation consists of one incoming 100-kV line termination, two 10-MVA, 110/13.2-kV power transformers, three 667-kVA voltage regulators, and five 13.2-kV circuit breakers. Dominion owns the 110-kV switching and protective equipment and the two power transformers. Fort Eustis owns the 13.2-kV circuit breakers and voltage regulators.

Description of the Government's "Should Cost" estimate (SCE): The Government's "should cost" is the total cost of service to own, operate, maintain and recapitalize the electrical distribution utility system. It is based on the number of employees, direct and indirect labor costs, contracting support, and the equipment and materials used to perform work on the electrical distribution utility system.

Recommended Fair Market Value: 10 U.S.C. Section 2688 requires the Army to receive fair market value for the utility system in return for conveying the system to the contractor. The Government determined the fair market value to be \$1,107,215.

Procurement History:

1. The solicitation was issued March 2001 with an original closing date of 31 May 2001, which was then extended to 17 October 2001.
2. Dominion Virginia Power (Dominion) submitted an initial proposal in October 2001.
3. Negotiations commenced in February 2002.
4. Dominion submitted a revised proposal in July 2002.
5. At the request of the Government, Dominion submitted 3 additional revisions in August 2002, October 2002, and January 2003.
6. DESC requested an alternate proposal using Virginia State Corporation Commission (SCC) regulated rates. Dominion provided a final revision of this alternative proposal in April 2003.
7. Dominion submitted a final proposal in June 2003.

Life Cycle Cost Analysis (LCCA): The privatization alternatives were evaluated in comparison with the Status Quo (Should Cost) alternative. The LCCAs of each alternative was developed utilizing ECONPAC. The results of the LCCA for Government Ownership and the Contractor Ownership Best Value Alternative are summarized in the following tables:

Alternatives	Period (Years)	Net Present Value (\$)	Equivalent Uniform Annual Cost	Annual Cost Avoidance	
				\$	%
Government Owned	50	\$ 39.807M	\$ 1.582 M		
Contractor Ownership	50	\$ 17.936 M	\$ 0.713 M	\$.869 M	54.9%

Conclusions and Recommendations: Privatization of the Fort Eustis Electrical Distribution Utility System is economical. Additionally, the following findings are provided:

1. The privatization of the Fort Eustis Electrical Distribution Utility System will eliminate the need for the installation to perform these functions and will allow a firm whose competence is electrical distribution utility system operation and maintenance to operate and maintain the system.
2. The privatization of the Fort Eustis Electrical Distribution Utility System assures future upgrades and additions to these systems.
3. This privatization action will be a cost-effective means to provide safe and reliable electrical distribution utility services to the Installation.